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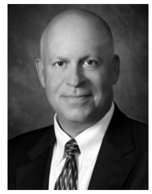
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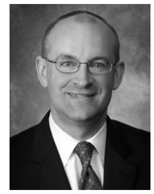
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DECEMBER 2019

The Dow Theory: Curbing Emotional Investing

In addition to starting the company that publishes *The Wall Street Journal*, Charles Dow (1851–1902) also lent his name to one of the most popular U.S. stock market indexes (the Dow Jones Industrial Average) and created a theory regarding major shifts in stock market trends. While neither Dow nor those who refined the Dow theory after him believed they were creating a sure-fire way to beat the market, they did believe that following its principles could at least avoid the mistakes associated with greed and fear.

Three Assumptions

Behind the Dow theory is a set of assumptions about how the stock market works:

✔ **The stock market moves in broad cyclical trends.** According to Dow, there are primary trends, which are long-lasting (from months to years), and minor trends, which don't last long and run in the opposite direction of the primary trend. Primary up trends are bull markets and primary down trends are bear markets — these are marked by peaks and troughs in price charts. Within these broader trends, there are secondary (minor) countertrends called corrections, which can retrace anywhere from 33% to 67% of the primary trend's movement. Of course, no one ever knows in advance how long trends will last. And since market prices fluctuate from day to day, it's dangerous to make too much out of a single day's movement.

✔ **Primary trends can't be manipulated.** The Dow theory holds that the primary trend in the stock market is driven by forces much bigger than any single event.

✔ **The stock indexes reflect all available information.** The Dow theory believes that everything

Continued on page 2

Fun Ways for the Entire Family to Save

Most people don't think saving money is fun, but there are ways to make it fun for the entire family. Check out these ideas:

Make It a Competition — You and your spouse or two of your teenagers can challenge each other to a "save-off." Set a time frame and a savings metric to determine the winner. Make sure the prize doesn't claim everything you've saved.

Create a Savings Thermometer — This is a great way to save when you have younger children. Let the kids create a large thermometer out of poster board, then write a saving goal at the top and hang it somewhere in the house where everyone can see it.

Have a Family Garage Sale — A great way to clean out your house is for everyone to find clothes, toys, and other household items they no longer use or need. Let your children help run the sale.

Find Inexpensive Family Fun — Not every outing with your kids has to include spending money, especially with younger children. Go to a local park, plant a garden together, or play a family game of baseball or volleyball. ❍❍❍

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The Dow Theory

Continued from page 1

there is to know about a stock and the economy at a given moment is factored into the prices of stocks. Unexpected events can occur, but usually they affect the short-term trend, creating what are called reaction rallies.

Three Primary Trend Phases

According to the Dow theory, major trends consist of three phases of varying length:

Stage 1: Accumulation or distribution. In this phase, the smart money — typically large institutional investors like investment banks, pension funds, mutual funds — start major buying or selling programs. Initially, this looks like a secondary countertrend, but trading volume on the major exchanges noticeably increases on up days, while volume tends to be lighter on down days.

Stage 2: The big move. In this phase, there are many more days in which the indexes move in the direction of the primary trend than in the opposite direction. In bull markets, there are strings of up days, followed by shorter strings of down days, reflecting the spread of enthusiasm for stocks. In bear markets, the opposite occurs, as anxiety and pessimism mounts. The result is a significant, long-term increase (bull markets) or decrease (bear markets) in the market averages.

Stage 3: Excess. The final phase of a primary trend is marked by extremely high levels of emotion — enthusiasm in bull markets and pessimism in bear markets — which are signs that the primary trend is about to change. These extremes can be seen in the behavior of individual investors: in bull markets, even the most conservative investors are buying stocks. On the other hand, in the excess stage of a bear market, everyone is concerned about safety of principal, while those who bought stocks at high prices have finally given up and sold at a loss.

The Indexes Confirm the New Trend

For Charles Dow, the primary trend was reflected in the Dow Jones Industrial Average, which today comprises 30 stocks. But Dow also looked to another index to confirm the emergence of a new trend. In his day, that was the Dow Railroad Index. Today, it's the Dow Transportation Index of 20 companies engaged in the shipping and transportation of manufactured goods. The idea was that a true change in the trend of business activity in the big manufacturing firms would show up in business for the companies they hire to move the goods they make.

For the second index to confirm the first, the Dow theory looks for both averages to be moving in the same direction. New highs or lows in one index are accompanied by highs or lows at the same time or shortly thereafter in the other.

The Dow theory is designed to tip off long-term investors to potential changes in the trend.

Please call if you'd like to discuss this in more detail. ❍❍❍

5 Reasons to Start Saving

If you're interested in getting started with savings or want to save more, here are five reasons to help keep you motivated.

1. You'll Be Prepared for Emergencies — Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small unexpected expenses. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises. Plus, the more debt you have, the more difficult it is to save. The result? A downward financial spiral that can be difficult to pull yourself out of.

2. You'll Be More Independent — With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Plus, without savings, you're living on the financial edge.

3. You'll Be Able to Reach Your Goals — We all have goals. Maybe you simply want to enjoy a comfortable retirement one day. Or perhaps you're dreaming of a second home by the lake, sending your kids to college, or starting your own business. Whatever your dreams, they likely have one thing in common — they probably require some money to become a reality. Few of those dreams are achievable if you don't save for them.

4. You'll Be Able to Earn More Money — Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving. Because of the power of compounding earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

5. You'll Be Happier — Money isn't the only thing that can make us happy. But there's evidence that *saving* money, even in small amounts, can make us happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to unhappiness. ❍❍❍

The Psychology of Saving

Saving money sounds simple. You set aside a portion of what you earn on a regular basis and watch your money grow. As a result, you're more prepared for emergencies, feel more financially stable, and are better able to achieve what you most want.

But in reality, saving is a little more complicated. Sometimes, our own minds work against us when it comes to setting aside some of the money we earn. A basic understanding of the psychology of saving can help you overcome roadblocks and achieve your goals.

Why It's Hard to Save

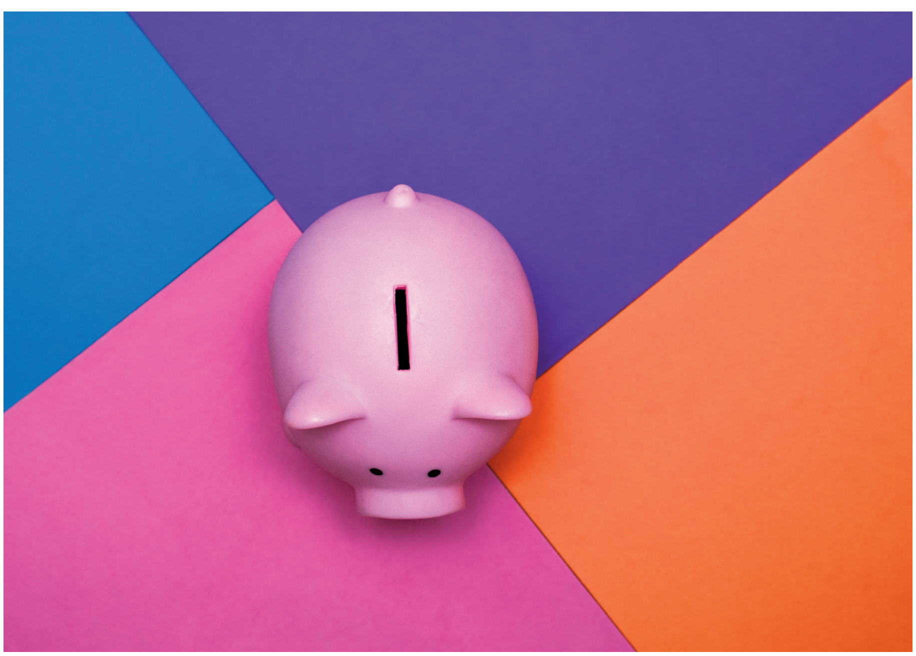
What is one of the biggest obstacles most people face when saving? We tend to prefer the certainty and immediate gratification of short-term rewards over the potentially greater — yet perhaps more uncertain — benefits of longer-term rewards. One study found that most adults would prefer to have $50 today rather than $100 two years from now, for example.

Part of the difficulty with saving for long-term goals is that people may tend to think of their future selves as different or separate from their current selves. That disconnect can make it hard to prioritize saving for the future.

Researchers studying this issue looked at whether encouraging people to think of saving for retirement in terms of a social responsibility to their future self, rather than in terms of their basic self-interest, would lead them to save more. The study found that the former appeal led to higher savings rates. In a related vein, another group of researchers found that seeing pictures of their future selves encouraged people to save more.

In fact, there are a number of studies that suggest changing our mentality might allow us to set aside more money.

A recent study found that people who adopted a cyclical mindset to saving, where they focused on making saving routine in the short term, saved more than people who set more ambitious longer-term goals. Those with a traditional linear mindset saved about $140 over two weeks, while those with a cyclical mindset saved $223 over the same time period. Overall, the evidence seems to suggest that if we can change the way we think about the future — and our future selves — we may be able to boost our savings rates.



The Psychological Advantage of Saving

Once you commit to savings, there's a good chance you'll see a psychological boost from doing so. In 2013, a survey by Ally Bank found that 38% of people with a savings account reported being extremely happy, compared to only 29% of people who didn't have a savings account.

That same survey found that 82% of people reported saving made them feel independent. Those feelings of success, well-being, and independence may in turn lead to even more saving. In fact, feeling powerful and having high self-esteem can lead people to save more, perhaps because increasing their net worth and financial stability helps people maintain their powerful feelings.

There might even be a formula for spending and saving that could lead to more happiness. Ryan Howell, a professor of psychology at San Francisco State University, found that happy people tended to demonstrate a particular pattern of spending and saving, earmarking 25% of their money for savings and investments, allocating 12% to charitable giving or gifts to others, and spending about 40% on life experiences they considered meaningful.

While our mental quirks might make saving difficult, being aware of the obstacles our mind creates can help us conquer them. And that, in turn, may lead to greater savings and increased happiness overall. ❍❍❍

One Must Dare To Be Happy

The title of this piece, a quote from American poet Gertrude Stein, is a proposition from us to all Americans for this holiday season. We say this because Americans seem be having a hard time with happiness. A new survey finds that the U.S. is just the 18th happiest country in the world, because of poor health, poor economic mobility, and a lack of social cohesion.[1] The lack of social cohesion has never felt so acute given the current political divide.

At a recent gathering, I asked how many people felt that Americans have become more polarized than ever. Everyone raised their hand and/or agreed. "Excellent," I said, "I have gotten you all to agree on something." There was some laughter, more nervous than happy. It is as Ms. Stein said, one must dare to be happy.

Could unhappiness be the reason that people are not buying stocks? I've heard this year's rally in stocks called the "least loved" bull market in history, because individual investors have been both consistently bearish and underinvested. A November Wall Street Journal article opened with "nervous investors have socked $3.4 trillion away in cash." The article went on to report that cash levels are at their highest level in a decade.

Nervous investors don't make money. Stocks have had their best year since 2013, and many have missed out.

Sonja Lyubomirsky, author of the book "The How of Happiness, a Practical Guide to Getting the Life You Want," lists the following happiness activities:

- Express gratitude
- Cultivate optimism
- Avoid overthinking
- Practice acts of kindness
- Nurture social relationships
- Commit to your goals

We note that some of these activities, cultivate optimism, avoid overthinking and commit to goals, also help investors. Certainly, those investors who raised cash because of their nervousness have had relatively poor investment results this year.

The science of happiness can be traced to the philosopher Aristotle. Aristotle called it eudaimonia. Numerous interpretations have been offered for Aristotle's eudaimonia, with a general consensus on the idea that it reflects "pursuit of virtue, excellence, and the best within us."[2]

I recall from the philosophy course I took in college, that Aristotle taught there were two paths to happiness, with one being eudaimonia and the other called telephilia, or perfected friendship.

The Roman philosopher Seneca instructed us that "true happiness is to enjoy the present, without anxious dependence upon the future, not to amuse ourselves with either hopes or fears but to rest satisfied with what we have."[3]

As we go through the holidays, keep in mind that good friends will make you happy, and so will enjoying the present, satisfied with good stock market returns (if you are a client). And perhaps we should wish for some snow given that Finland, Norway, Denmark and Iceland lead the World Happiness tables.

We hope you keep in mind one other suggestion from Gertrude Stein. She said that "You look ridiculous if you dance. You look ridiculous if you don't dance, so you might as well dance." Enjoy the holidays.

Sincerely,

John B. Burke

John B. Burke, MS, CFP®
Financial Advisor

[1]World Happiness Report 2019
[2]From Positive Psychology.com, Catherine Moore
[3]Stanford Encyclopedia of Philosophy